Audit Program
Procurement Cards
April/May 2005

Audit Objectives

The purpose of this audit is to ensure compliance with established regulations, policies, and procedures. Audit objectives are to: 1) Review controls related to procurement card transactions 2) Review a sample of procurement card transactions for proper authorization, supporting documentation, appropriate use of card, appropriate purchases, and proper accounting, and 3) Conduct a physical examination of selected procurement card purchases.

General Description

The Office of Financial Services within DMB manages the Central Procurement Card Program. The focus of the Procurement Card Program is to continue improving the purchasing process by streamlining small dollar purchases, expanding controls, and increasing efficiency. Employees may use their procurement card to make purchases related to their job with the State of Michigan in person, by mail, telephone, or via the Internet. The procurement card can be used for non-contract purchases of $2,500 or less. Payments to vendors are made via MasterCard. A contract has been established with JP Morgan Chase (JPMC) for administering this credit card program throughout State departments.

References

- DMB Administrative Guide Procedure 0510.03 titled “Credit Card Usage”
  www.michigan.gov/dmb/0,1607,7-150-9131_9347-28711--,00.html

- State of Michigan, Procurement Card Program, Cardholder Manual,
  www.michigan.gov/documents/manual_ch_16227_7.doc
  State Of Michigan, Procurement Card Program, Agency Administrator Manual

- Office of Financial Management, Support Services Division, Internal Control Evaluation Worksheet for Procurement Card Program.
  http://www.michigan.gov/documents/pcard_eval_v4_119167_7.doc

- Acquisition Services Letter No. 116 “Using Direct Vouchers and the Procurement Card”.
  http://www.michigan.gov/documents/pl116_44489_7.pdf

Attachments

Authoritative guidance
Merchant Category Code (MCC) listing

Audit Steps

1. Identify and obtain applicable procurement card policies and procedures as well as gaining an understanding of the PaymentNet program.

2. Obtain a listing of all procurement cardholders, by department, from PaymentNet.

3. Interview appropriate personnel to gain an understanding and document the procurement card process and controls. In addition, identify the names and responsibilities for the following PaymentNet access security levels.

   a) Cardholder
   b) Manager
   c) Division
   d) CFO
   e) Administrator

4. Obtain from each the Attachment to the Cardholder Manual for procedures that are specific to that department. The Attachment should include at least the following:

   a) Spending policy
   b) Approval policy
   c) Accounting procedures
   d) Account changes
   e) Plastic security

5. Perform a cursory review of the cycle transaction detail reports for the audit period (January 1, 2004 through March 31, 2005) for any unusual transactions or obvious policy violations that would indicate further review is necessary for a particular card.

6. Obtain all procurement card transactions from PaymentNet for the audit period and stratify by vendor. Review YTD purchases from the same vendor to determine if a state contract should be initiated for the recurring purchases.

7. Segregate all procurement card transactions for the audit period. These segregated transactions will then be transferred to ACL where the following will be performed:

   a) Compare transactions for the audit period with each cardholder's single transaction limit amount. Review exceptions and determine if follow-up procedures are needed
   b) Stratify the query file into high ($2,000+), medium ($1,000-$2,000), and low (under $1,000) dollar and volume strata
   c) Select a sample from the high, medium, and low dollar and volume strata
   d) Export samples to Microsoft EXCEL to produce sample listings and to develop a testing sheet.
   e) Summarize MCCs by number of transactions and dollar amount. Review a sample of transactions for MCCs that are considered to be high risk or inconsistent with the typical operations of the department.

8. For the sample selected, review the transaction detail reports and supporting documentation for the following:

   a) Proper reconciliation and approval for payment (full legible signatures)
   b) Timely review and return of transaction detail reports to finance/accounting.
   c) Supporting documentation (receipts) attached to transaction detail report
   d) Proper approval for any purchases greater than $2,500
   e) Appropriate use of card:
      - Cards are to be used by authorized cardholder only
      - Purchases are not to be split to avoid the single purchase limit of $2,500
      - Sales tax should not be included on purchases
   f) Appropriate purchases:
      - Business use only
      - No health, legal, or medical services are to be purchased
      - No services from 1099 reportable vendors are to be purchased (seminar and conference purchases are acceptable, but training that is 1099 reportable is not)
      - No contracted items are to be purchased unless authorized by Acquisition Services (Boise–office supplies, Alltel–cellular services, Wesco Inc.–fuel services, etc.)
      - No food is to be purchased without appropriate explanation and listing of participants (in-house meetings are acceptable)
      - No travel related expenses are to be charged (airline, hotel, gasoline, etc.) unless utilizing designated (ghost) accounts for the purchase of airplane, bus and train tickets
      - No electronic/computer equipment or software is to be purchased unless authorized by DIT (Palms, etc.)
      - Cash advances are not to be made
   g) Make copies of any exceptions within the sample to include in the working papers

9. For the sample selected, randomly select a few cardholders and verify the following:

   a) A standard cardholder application with multiple levels of approval is on file
   b) Cardholder has completed a “Cardholder Agreement” that states they understand their responsibilities and will adhere to procurement card policies and procedures
   c) For any cancelled accounts, verify the account has been successfully closed on PaymentNet

10. Verify the existence of all fixed assets/non-consumable purchases (tools, equipment, etc.) with a purchase price of $250.00 or greater. If the volume of transactions seems excessive to view or geographically impracticable, then judgmentally select a sample of the transactions. For each department, gain an understanding and document the process used to establish physical control and accountability for non-consumable purchases.

11. The following is the payment process to be used until their payment is automated through R*STARS. DMB pays JPMC for the entire amount due statewide and then processes those charges to each department bi-weekly using an interface program. Cycle reports (cardholder statements and departmental amount due) from PaymentNet are produced on the Thursday after the close of a cycle. Select 2-3 cycles within the audit period and determine the following:

    a) The amount of the interface is the total dollar amount due per department to DMB
    b) Each office reviews, modifies, and approves the default account coding assigned to each transaction and verifies that all charges are valid
    c) A reconciliation was done after the interface to ensure that the total dollar amount due was posted and that payment was not held up because of incorrect accounting codes or lack of funds

12. Obtain a listing of all employee terminations, transfers, retirements, etc. occurring during the audit period from MIDB and compare to the cardholder list. Notify the Director of Human Resources that this step will be completed and they will be informed of any exceptions.

13. Gain an understanding of the process completed when an account is closed.

14. Complete testing and conclusion template (copy to be provided) and provide to the department director with copies to the DMB Director and State Budget Director.